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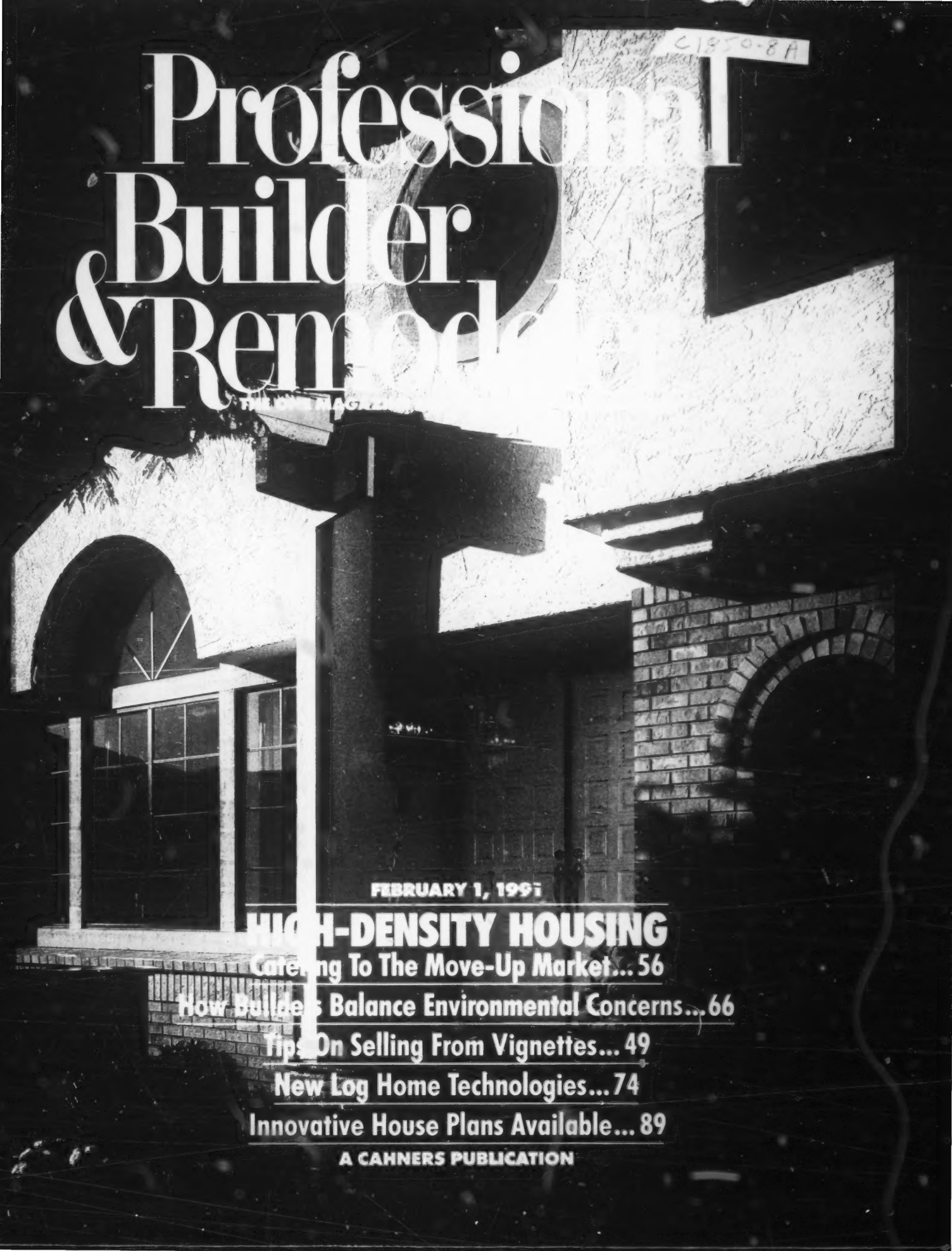

FEBRUARY 1, 1991

HIGH-DENSITY HOUSING

Catering To The Move-Up Market... 56
How Builders Balance Environmental Concerns... 66
Tips On Selling From Vignettes... 49
New Log Home Technologies... 74
Innovative House Plans Available... 89

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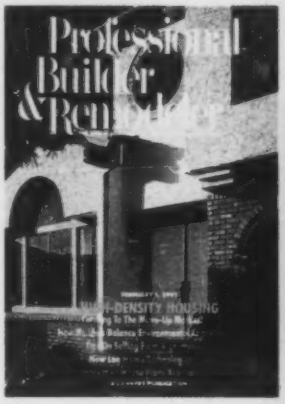
Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



On The Cover

■ A-M Homes' single-family detached models at Palacio, San Jose, Calif., are built nine units to the acre. The high-density design saved the company $25,000 per lot. Photography by Mark Boisclair.

Novel cluster-housing designs: p. 56.

Environmental challenges: p. 66.

FEATURES

Let America Build: High-Density Housing 56

If the current crisis in the supply of affordable housing is to be resolved, higher density housing must be part of the strategy. It can be a viable way to combat the rising cost of land and still create appealing neighborhoods with maximum value.

Balancing Environmental Concerns 66

Protecting the environment tops the national political agenda, but it is often at odds with the production of housing. The future may belong to builders able to position themselves on the same side of this emotional issue as their targeted buyers.

New building techniques for log homes: p. 74.

Cabinetry for every room: p. 78.

DEPARTMENTS

Editorial: Remodeling Synergy Keys Survival. . . 13

Money: What Builders Should Tell Lenders. . . 24

Inside Housing: Affordable Retirement Product. . . 30

Accounting: Calming Nervous Bankers. . . 38

Real Estate Dynamics: Preparing For Change. . . 42

Product Showcase. . . 78

Building Systems Literature. . . 83

House Plans. . . 89

Indicators: Revised 1991 Forecasts. . . 111

Business

■ In Part III of our exclusive 1991 Outlook report, the industry's top Giants outline key marketing and design strategies for a year of survival: *p. 16.*

Markets

■ A "granny flat" addition enables homeowners to provide supervision for aging parents, while maintaining their dignity and privacy: *p. 29.*

Management

■ Passing the corporate baton, Ryland Homes, one of the nation's leading builders, facilitates the transition: *p. 35.* If a construction business represents your biggest asset, take steps to reduce the impact of estate taxes: *p. 36.*

Marketing

■ Bukiet Building vignettes models to save money, find a marketing advantage: *p. 49.* Secondary baths can be a lucrative source of business: *p. 52.*

Technology

■ Log home systems are no longer simple square boxes. Many stick builders find they've become easier to assemble and sell: *p. 74.*

Next issue

■ Gourmet kitchen and power bath designs; ideas on how remodelers can avoid bidding wars; and drought-resistant landscaping techniques.

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New Construction/Remodeling Synergy In A Survival Market

By Roy L. Diez,
Vice President,
Editorial Director

With the recession, many new home builders are now looking to the remodeling market as a way to bolster flagging construction activity.

These late-comers are joining a host of builders who have diversified into the remodeling market in recent years, not because of the current recession, but because they view remodeling as a strong growth market for the entire decade of the 1990s, and beyond.

Small-volume and custom home builders have always switched back and forth between new construction and remodeling—going where the business is, gaining jobs from referrals and past customers. More recently, many medium- and large-volume builders have entered the market, creating new remodeling divisions within their operation.

A recently completed Builder Remodeling Survey conducted by *PB&R* documents this across-the-board diversity. Large- ($1 million-plus annual volume), medium- ($500,000 to $1 million) and small-volume builders (under $500,000) all reported significant activity in both remodeling and new construction—see chart.

Collectively, 54% of these builders said that remodeling had become a more important part of their business activity over the past five years. Only 7% said that remodeling had become less important.

Including remodeling in their building capabilities has been a smart move by builders because, despite the declining economy, remodeling activity has grown.

Residential remodeling expenditures actually increased last year (rising from $100.9 billion in 1989 to an estimated $103.8 billion) and are expected to grow higher this year (to $109.6 billion). More important is the fact that the additions and alterations portion of this market—which consists of jobs well suited to any new home builder—has also continued to grow (increasing from $39.8 billion in 1989 to an estimated $40.7 billion in 1990 and a projected $43.4 billion this year).

% Of Business Activity

	Large	Medium	Small
New Const.	52%	42%	35%
Remodeling	48%	58%	65%

Note: Full survey results will be published in an upcoming issue.

Is Mass Market For Remodeling Possible?

In *PB&R*s recent Builder Remodeling Survey (see chart note above), 56% of surveyed firms said that they have remodeled homes that they originally built. Moreover, 35% said that such jobs were a consistent source of remodeling business. For medium- and large-volume builders such figures might point to the intriguing possibility of developing a mass market approach to residential remodeling.

First, consider all the tract production model homes you built and sold over the past 10 to 15 years. Now think how easy it would be to develop popular but standardized remodeling plans for those older models—maybe a room addition for growing families, or a kitchen modernization, or conversion of a secondary bedroom to a larger master suite.

Finally, think how easy it would be to fashion a targeted direct-mail remodeling campaign to all of those past buyers of your company's new homes.

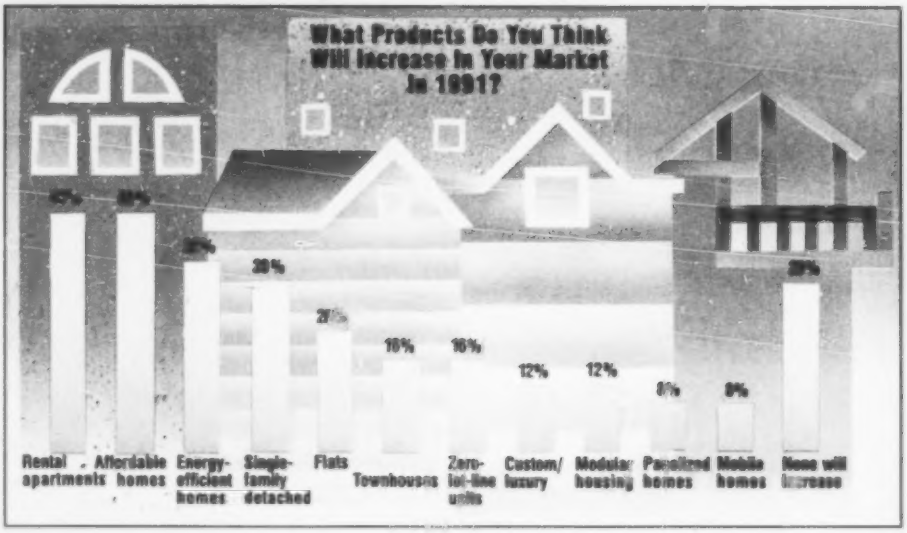
It could make your mouth water.

BUSINESS

■ 1991 OUTLOOK: PART III

Giants Gear Up For Lean And Mean Business Climate To Come

The top 400 builders discuss their plans for 1991 and offer advice on operating during tough times.



As the going gets tougher, the nation's largest home builders are concentrating on downsizing operations and focusing their marketing. The following is a summary of the latest "Giants Speak Out" study, conducted by The Blackstone Group, Chicago, on behalf of *Professional Builder & Remodeler* magazine.

Forty percent of the surveyed builders said rental apartments would increase in their markets in 1991. Another 40% said affordable housing would increase, while a sizable 32% pointed to energy-efficient homes. Value and quality was cited by 96% as the top marketing theme, followed by price (88%), location (84%), and affordability (76%).

The emphasis will shift from move ups to first-time buyers next year, according to 52% of the builders surveyed. As Ned Siegel of Weingarten-Siegel Group, Manalapan, N.J., explained, move ups are getting harder to attract because selling their existing homes has become more difficult. Paul Amir, Amir Development Co., Beverly Hills, Calif., plans to entice first-time buyers by reducing the downpayments and eliminating the luxury items in the homes he sells.

"We create urgency in the mind of the buyer through media and mass mailings," says Michael Van Daele of Van Daele Development, Riverside, Calif. Van Daele's advertising stresses that the cost of owning a home is competitive with the cost of renting a home.

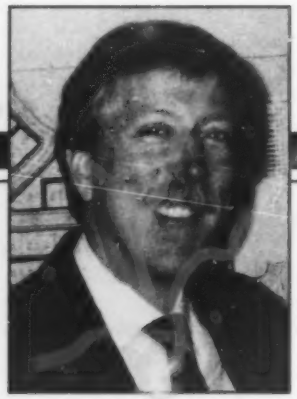
Another builder in California, Phil Bates of Hal Porter Homes, Brentwood, says his company encourages prospects to closely inspect houses under construction: "We have as rigorous a quality insurance program for first-time buyer housing as other builders have for $500,000 homes. I think buyers appreciate that."

Giants were divided on the strategies for countering the downturn, with 52% saying they planned to further diversify in the coming year. Those reporting a move to diversify had some creative approaches. For example, the Arker Cos., Woodmere, N.Y., has a subsidiary called Metro Golf Associates that develops golf courses for Japanese and other offshore investors.

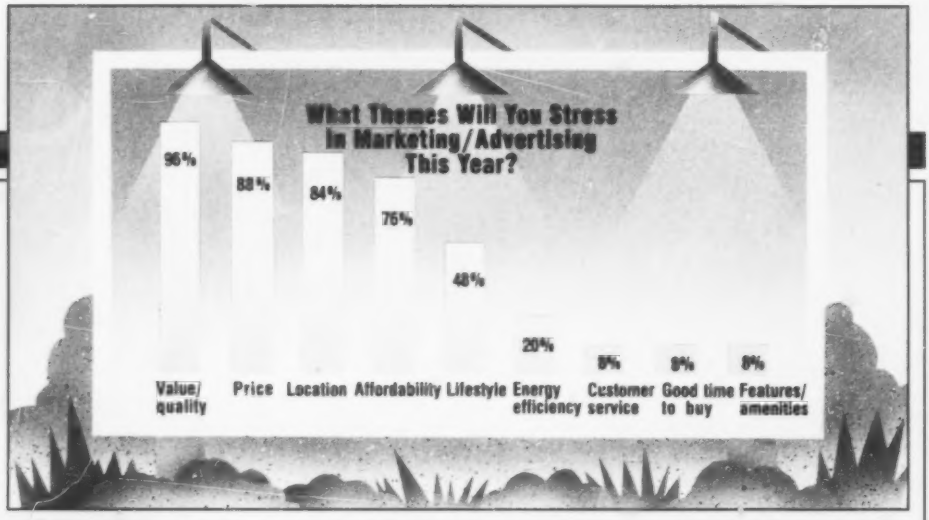
Dave Kohner, vice president of development for the Pacific Northwest division of Picerne Properties, Warwick, R.I., says the firm (best known as a builder of rental housing) is considering a move into affordable for-sale housing in the Seattle area. "It seems like a niche that hasn't been filled," he says.

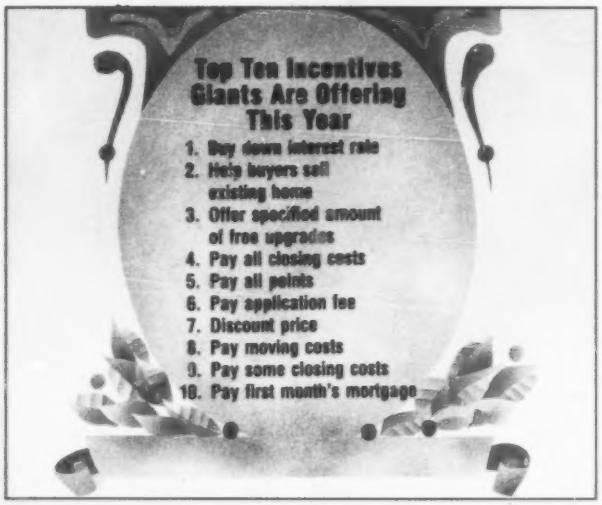
On the other hand, Jim Clayton, Clayton Homes, Knoxville, Tenn., sees no reason to diversify because his business has been profitable. The company is a producer of manufactured housing. "We're staying focused on our five-year plan," says Clayton.

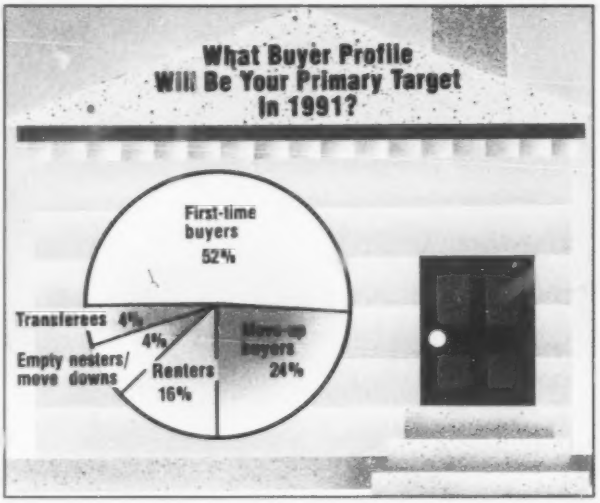
Most of the Giants surveyed (84%) concentrate their activities in single-family housing, but they also are active in multifamily for-sale (56%) and rental housing (40%). In 1991, the Giants plan to step up their involvement in rental housing, overseas marketing, remodel-



Phil Bates,
Hal Porter Homes




Top Ten Incentives Giants Are Offering This Year
1. Buy down interest rate
2. Help buyers sell existing home
3. Offer specified amount of free upgrades
4. Pay all closing costs
5. Pay all points
6. Pay application fee
7. Discount price
8. Pay moving costs
9. Pay some closing costs
10. Pay first month's mortgage



ing and adaptive reuse. Remodeling is viewed as a long-term opportunity by 40% of the surveyed builders, as opposed to 20% who see it primarily as a hedge against a down market.

Housing starts will decrease this year, said 56% of respondents, but 24% felt they would remain the same. According to 64%, new home prices will stay the same, and 44% said construction costs would increase. But 72% said land costs would decrease.

Average selling prices will decrease in 1991, according to those surveyed. Builders reported an average price of $177,348 in 1990. Next year, the average price is expected to be $172,183.

Giants suggested a number of strategies for keeping costs down (see checklist). In addition to the top 10 ideas listed here, building at higher densities was mentioned by Los Angeles builder William Rattazzi and James B. Fleig of Shawntana, Newport Beach, Calif.

Kohner says Picerne Properties plans to be "more productive, do more national buying and work harder in states where economies have been very strong. Suppliers and subs will have to reduce their margins."

Epoch Properties Inc., Winter Park, Fla., bids more than one job at a time to get better prices from subs, says James H. Pugh Jr. Bates also believes in "talking real earnestly with our subcontractors to get them to hold down costs. We'll also look at the structure of land deals, where the seller participates in financing."

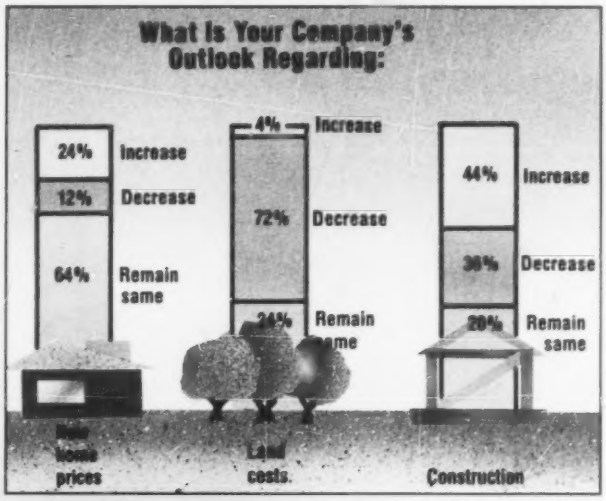
The second checklist summarizes the top 10 incentives Giants are offering buyers this year. Other incentives range from trade ins (where the builder buys the existing home in exchange for the new house) to discounts on early closings.

"The thing that seems to work for us is value—getting the most house for the dollar," says Paul Friedman, Friedman Homes, Rancho Cucamonga, Calif.

Allan Arker of the Arker Cos. says, "Buyers today are too intelligent to go for a buydown on points, because they know what the net effect will be in terms of cash. They're able to calculate the dollar savings in terms of a credit for

Continued on page 20.

Survival tips: pare down inventory and don't build on spec



Giants' Top Ten Strategies For Holding Down Costs
1. Fast-track construction
2. Reduce square footage
3. Provide fewer amenities
4. Build farther out
5. Smaller lots
6. Use factory-built components
7. Cut down landscaping & exterior amenities
8. Reduce land costs
9. Lower overhead
10. Leave models unfurnished

Dave Kohner, Picerne Properties

Continued from page 17.

points, and they'd rather take them as a reduction against the sales price."

The Key Co., Greensboro, N.C., has a referral program. Buyers get a $500 gift certificate for bringing in a new customer, according to John M. Garrity.

Surveyed builders also offered their advice for operating in lean times. "I would recommend aggressively planning for a slowdown sooner rather than later," says Mark L. Frazier, Barratt American Inc., Irvine, Calif. "Sell off land, control starts and anticipate layoffs."

Avoid new land purchases, says Dave Carney of Capital Homes Maryland, Columbia, Md. It may be necessary to take a loss by cutting prices on the houses in your inventory, he says.

Susan P. Corley of Corley Real Estate, Northbrook, Ill., suggested trying to reduce inventory and overhead costs, and advised against building on speculation.

"The key to business is not falling victim to it," says Van Daele. "You have to have a business plan and cash reserves to protect the firm and its employees."

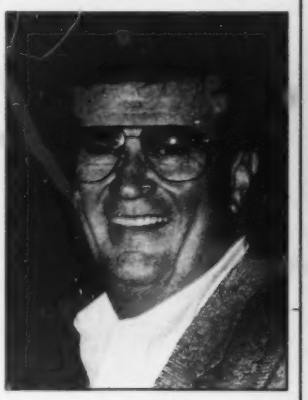
Paul E. Griffin Jr., Griffin Homes, Calabasas, Calif., feels the best defense against lean times is a positive attitude. "Builders have to keep their morale up and know they're going to succeed and that the recession will end," Griffin says. "They must keep up their creativity and entrepreneurial spirit."

But Dave Kohner sees the '90s as a time to be cautious rather than creative: "The computer is going to play a more important part than it ever has. I see less evolution happening with products and more of it with financing. That's where the time will be spent. Equity will drive the new products of the '90s."

John Pollis of Fleetwood Enterprises, Riverside, Calif., one of the nation's largest producers of manufactured housing, urges builders to make more use of factory-built product in a down market.

Pugh advises converting as much of the company's assets into cash as possible: "In other words, make the hard decisions. Let people go if necessary. Builders tend to be optimistic, but that can be their downfall; in hard times, you have to temper that optimism with a dose of realism."

According to Arker, "The key is to minimize inventory or reduce existing inventory. Create enough cash flow to operate or fund operating expenses to get you through lean times."



John Pollis, Fleetwood Enterprises

Be introspective, says Bates. "Look at it as a challenge that will improve the way you operate. Don't cut back on quality; it's just as important in a bust market as in a boom market, maybe even more so. The most successful builders are the ones who always act as if it's a buyer's market."

By Susan Bady, Senior Editor

■ ACCOUNTING

How To Maintain Good Relations With Nervous Bankers

By Kenneth Leventhal,
Senior Partner,
Kenneth Leventhal & Co.

The S&L crisis is worsening. According to the Government Accounting Office, the banking system may be headed in the same general direction. The GAO says that the FDIC fund for depositor insurance coverage seems woefully inadequate.

The Office of the Controller of the Currency is continuing efforts to cause its member national banks to tighten up their lending criteria and reduce their aggregate loan concentration in the real estate industry. This means that it will be difficult for developers with construction loans to maintain them and continue pre-existing relationships.

Many developers have complex operating structures—bank loan officers have been accused of not adequately understanding them.

Many developers have complex operating structures that use an assortment of entities (sole proprietorships, partnerships, corporations, etc.) The relationships of these entities has been the subject of some criticism from federal and state regulators. Bank loan officers have been accused of not understanding them.

We have some recommendations for developers who would like to maintain their existing lending relationships:

□ Develop a comprehensive package of information about your company.

□ Include an operating history, a track record listing the location, date of development, holding period and status (when sold), and current "audited" financial statements for every entity in the group.

□ Display this information in the most easily understandable fashion available.

In addition, regulators are beginning to ask bankers if they have considered the full scope of debt owed by a particular developer to all other FDIC insured lenders. Accordingly, it would be advisable to include a schedule that sets forth the total magnitude of debt payable to any financial institution subject to FDIC regulation.

The real estate recession seems to be spreading from the Northeast to the West like a wildfire. The Kenneth Leventhal & Company Real Estate Database, which tracks residential and non-residential development on a nationwide basis seems to validate this overall conclusion. It is highly unlikely that additional monies will be available from FDIC insured institutions for such future developments, unless some "pockets of opportunities" can be identified and supported with valuation/appraisal data.

It would appear that we are in for some hard times over the next 12 to 18 months. The best way to cope with them is to reinforce credibility with existing lending institutions.

Pacific Northwest Survives Lumber-Grading Scare

Builders in the Pacific Northwest, particularly those in the Seattle area, are heaving a collective sigh of relief over a lumber-grading scare.

It was first feared that dozens of homes and apartments would have to be torn apart to rectify possible safety problems. But quick action by local building departments, including inspections by structural engineers, turned up only 63 housing units where the misgraded lumber posed a problem, and all but three of those were discovered before walls were closed, enabling a quick fix with double studding.

"There were three apartment units where joists and trusses had been covered over and the surface had to be removed to correct the problem," says Jim Williams, executive director of the Master Builders of King and Snohomish Counties. "But considering our building pace of nearly 2000 units per month here, I think we're talking about a minor problem, not a major one." □

Who Bears The Burden?

(How much Americans pay in monthly real estate taxes)

Less than $25:	14.7 million
$25 to $49:	12.5 million
$50 to $74:	9.1 million
$75 to $99:	6.1 million
$100 to $149:	8.1 million
$150 to $199:	3.8 million
$200 or more:	4.1 million

Source: 1987 American Housing Survey

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Revised 1991 Housing Forecasts Weaker Than Expected

Single-family starts stabilize; multifamily continues decline.

In spite of lower interest rates and the acknowledged existence of the best "buyers' market" in almost a decade, conditions in the residential building sector of the economy continued to deteriorate at the end of 1990. Levels of both new housing starts and new home sales reached eight-year lows, and building permit values continued to drop, particularly on the multifamily side.

We have recently revised our housing starts forecasts to better reflect the realities of the severe problems continuing to face prospective home buyers and builders alike. Conditions are markedly worse now than just a few months ago because of lowered consumer confidence and weak growth in household income.

Although we expect residential building activity to "bottom out" by the middle of this year, the weak first half will preclude anything but a very slight improvement in total starts. We are forecasting 1.233 million total starts this year, up about 2% from the predicted 1.208 total for 1990. Single-family starts, which showed signs of stabilizing in the final months of last year, should be up about 4.5%. Multifamily starts should decline for the sixth consecutive year.

We expect a combination of still lower interest rates, a slowly improving U.S. economy, and pent-up demand, to begin turning the tide in the second half of the year.

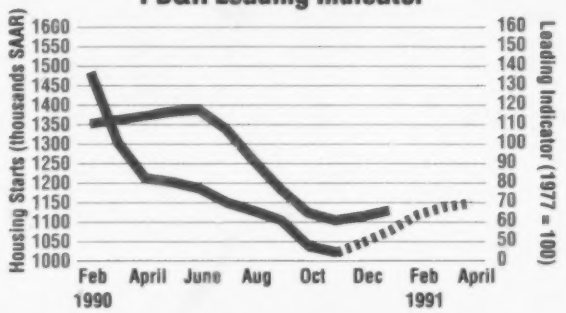
Opportunities Exist Outside New Construction

Although the weakening economy negatively impacted all aspects of the building and construction market in 1990, both residential and light commercial remodeling activity held up much better than new construction.

Through October 1990, the value of permitted new residential construction had fallen by 10.9% and total new non-residential permits were off by a slightly less severe 7.2%, when compared to the same 10 months of 1989. On the other hand, permits for both residential and non-residential additions, alterations and conversions were up—residential by 1.9% and non-residential by 2.2%.

By Daryl Delano, Cahners Economics

PB&R Leading Indicator

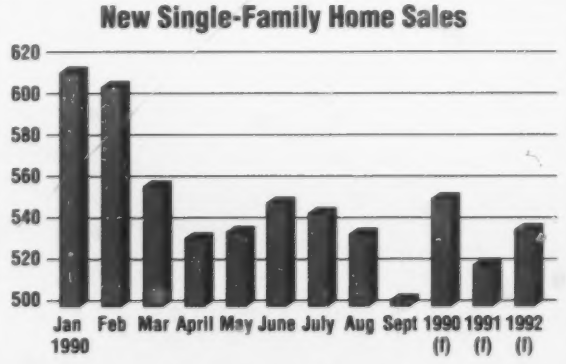


Broken line denotes forecast. Leading Indicator of Housing predicts short-term changes in residential construction over approximately the next quarter. Latest figure is based on February data and includes the Standard and Poor's h-b stock index, 90 day T-bills, bank reserves, consumer confidence index and the ratio of homes for sale to those sold. Prepared exclusively for PB&R by Cahners Economics.

Regional Market Conditions
(Year-To-Date Trends)

	S-F Home Permit $	Average S-F Permit Value	Remodeling Permit $	Employment Change
Albany	-20.4%	$101,348	+4.8%	+1.5%
Newark	-24.9%	$116,349	+4.4%	+1.2%
Miami	-32.6%	$81,369	-4.6%	+3.1%
Louisville	+8.5%	$88,224	-27.8%	+3.1%
Houston	+18.2%	$103,751	-8.5%	+3.3%
Detroit	-7.0%	$94,466	-4.8%	-0.8%
St. Louis	-8.6%	$86,730	+15.4%	+0.6%
Las Vegas	+18.6%	$75,584	+37.9%	+8.6%
Sacramento	+5.6%	$129,215	+32.5%	+4.6%

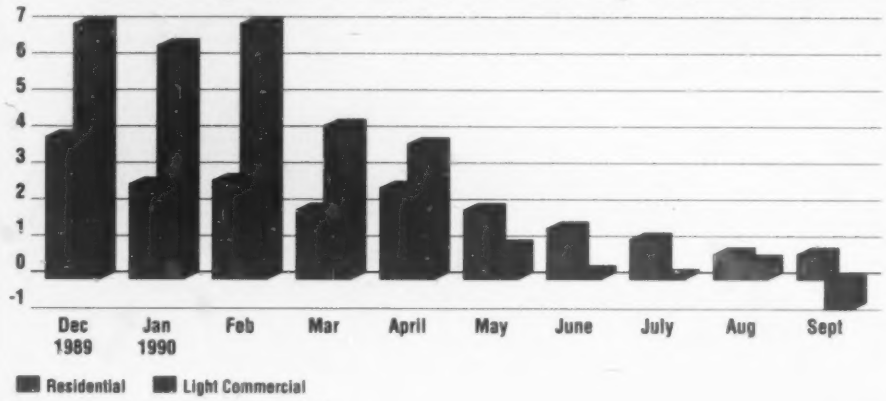
New Single-Family Home Sales



Data reflects seasonally adjusted annualized rates, in thousands.
Source: Department of Commerce. Forecast by Cahners Economics.

INDICATORS

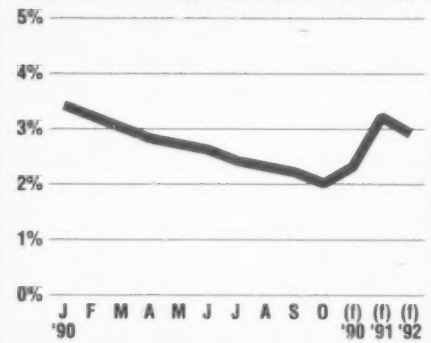
Remodeling Permit Trends: Residential & Light Commercial



Data reflects percent change in 12-month moving totals.
Source: Department of Commerce. Forecast by Cahners Economics.

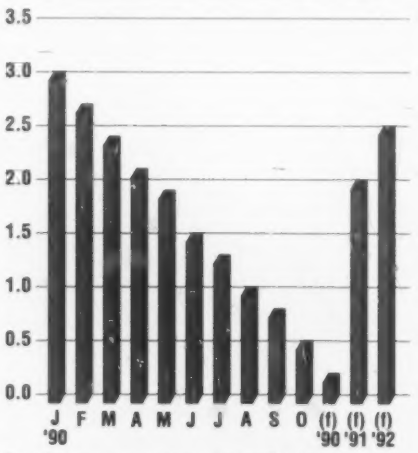
Construction Labor Costs

(Over-The-Year Change In Average Hourly Earnings)



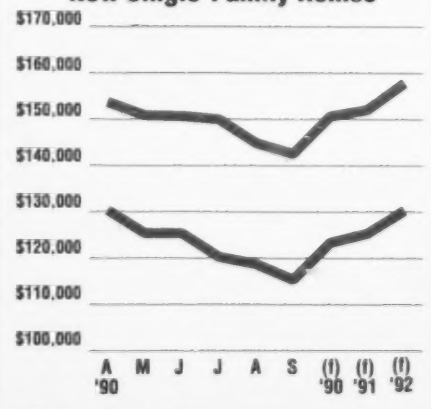
Source: U.S. Department of Labor. Forecast by Cahners Economics.

Construction Materials Price



Data reflect over-the-year change in Producer Price Index.
Source: U.S. Department of Commerce. Forecast by Cahners Economics.

Sales Prices Of New Single-Family Homes



Source: U.S. Department of Commerce. Forecast by Cahners Economics.

Key Trends At A Glance

	Oct. 1990	Feb 1990
Total housing starts*	1041	1488
New home sales*	503	606
Remodeling permit trend	+2.2%	+5.2%
Consumer confidence index**	62.6	106.7
Median price of new home***	$115.00	$126.9
Fixed-rate mortgages	10.18%	10.22%
Construction wage trend	+2.0%	+3.2%

* Seasonally adjusted annual rate, in thousands.
** 1985 = 100.
*** In thousands.

Construction Employment Continues To Slide

The weakness in virtually all sectors of the building market is dramatically reflected in recent construction employment trends. In the year ended November 1990, total construction employment nationwide had fallen by 4.2%. General building contractor payrolls had shrunk more than special trade contractor payrolls; employment at general contractor firms had fallen by 6.3%, while special trade contractor employment had about held its own during the downturn.

During November 1990, an estimated 5,169,000 people worked in the construction industry—229,000 fewer than a year earlier. The unemployment rate for construction workers rose from 9.8% in November '89 to 13.6% last November.

Construction Wages, Material Costs Remain In Check

Despite a late-1990 surge in both consumer and producer price inflation—brought on by higher oil prices following Iraq's invasion of Kuwait—inflation in the construction industry remained in check. Weak construction markets have lessened price pressures, as most materials producers are little affected by the run-up in oil prices. The shortage of construction labor—much talked about a year ago—has disappeared in most markets. □